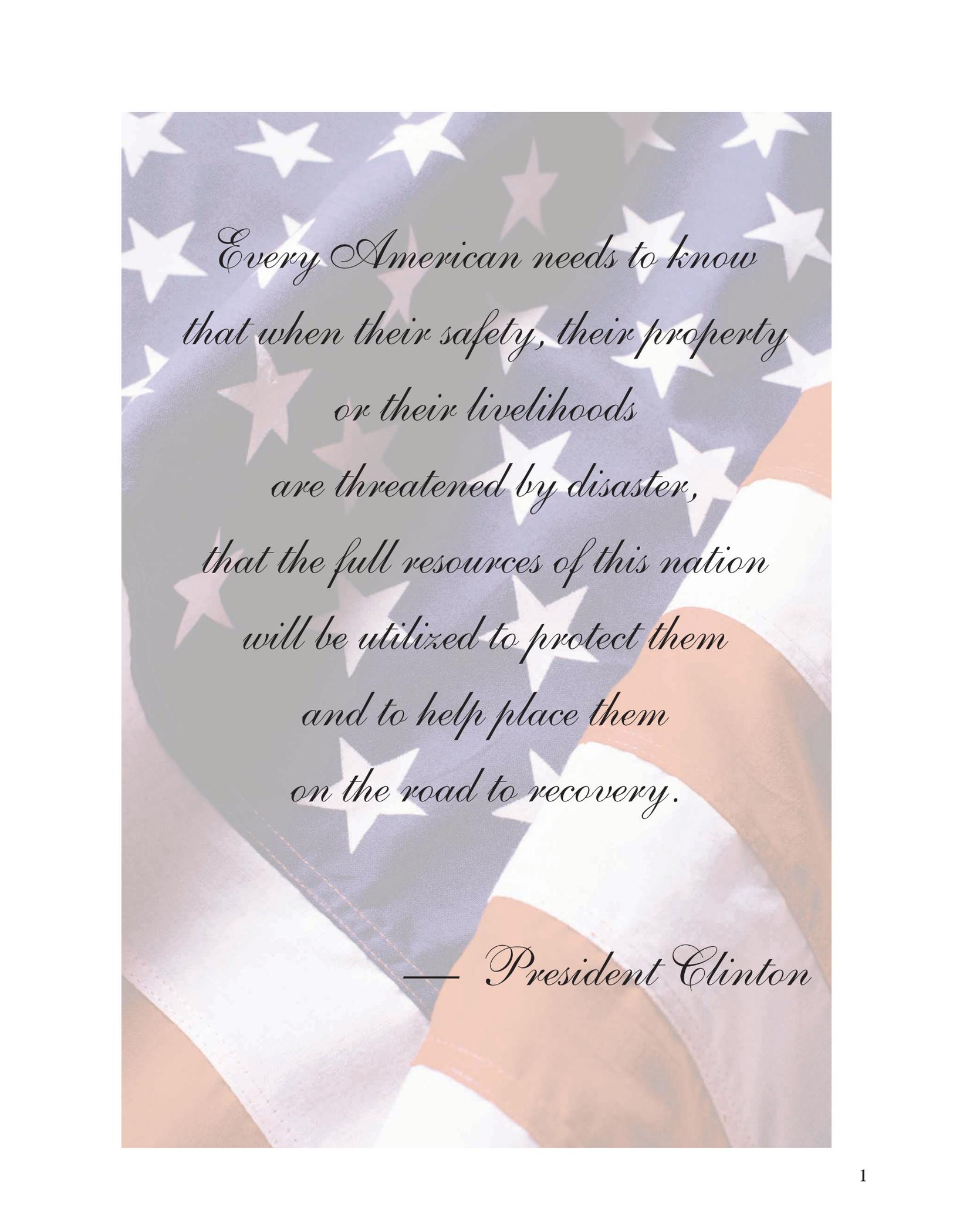


Federal Emergency Management Agency



Accountability Report for Fiscal Year 1998

March 1999



*Every American needs to know
that when their safety, their property
or their livelihoods
are threatened by disaster,
that the full resources of this nation
will be utilized to protect them
and to help place them
on the road to recovery.*

— President Clinton

TABLE OF CONTENTS

Message from the Director	5
Message from the Chief Financial Officer	7
About the Federal Emergency Management Agency.	9
Management Discussion and Analysis Part I Performance.	13
Management Discussion and Analysis Part II Supplemental Information.	55
The Federal Emergency Management Agency Report on the Consolidated Financial Statements for Fiscal Year 1998	69
Auditor's Report on Financial Statements and Management's Response.	71
Introduction to the Consolidated Financial Statements	79
The Consolidated Financial Statements	81
Notes to the Consolidated Financial Statements.	86
Supplemental Combining Financial Statements for the Directorates and Administrations	101

MESSAGE FROM THE DIRECTOR



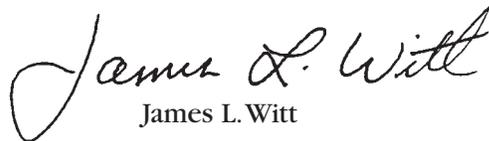
As Director of FEMA, maintaining the public's trust and providing stewardship of their tax dollars is a vital goal to me, to senior management, and to employees of this Agency. Therefore, I am pleased to issue FEMA's first Accountability Report describing the Agency's mission and goals, and demonstrating the way in which our financial performance is tied to the Agency's broader objectives.

We are an organization dedicated to "serving our customers." This is demonstrated by FEMA employees who display the highest standard of dedication, the willingness to put the customer first, to find new and innovative ways to solve old problems, and to work closely with old and new partners. These beliefs are the true keys to our success.

This comprehensive report articulates the significant progress FEMA has made in our program areas and demonstrates effectiveness, economies and efficiencies in the way we conduct business, while providing the highest quality service delivery to the American people. This Accountability Report signifies FEMA's issuance of complete agency-wide financial statements for fiscal year 1998 and acknowledges that we are meeting the requirements of the Government Management Reform Act of 1994. FEMA has come a long way in improving financial management and accountability in the last several years.

FEMA's Accountability Report should be useful to our customers, partners, and the public as it consolidates in one place an overview of the Agency's activities and tells the world who we are and what we do. The report also provides a discussion and analysis of key performance standards and measures, the Agency financial statements, and other relevant supplementary information.

The future will be demanding for FEMA, given the potential increase in number and severity of disasters. I have great confidence in FEMA's strong management team and our dedicated, talented and caring employees who have demonstrated continued commitment to exceeding customer satisfaction. With a commitment to the American people, to customer service, and operational excellence, FEMA will be well positioned to address the challenges and opportunities of the future.


James L. Witt

CHIEF FINANCIAL OFFICER'S MESSAGE



I am proud to present the Federal Emergency Management Agency's fiscal year 1998 Accountability Report. The Accountability Report is issued under a pilot program authorized by the Government Management Reform Act of 1994. The independent audit conducted of the financial statements included in this report has resulted in an unqualified opinion. The audit included, for the first time, consolidated reporting of all the agency's activities, the on-schedule realization of a goal established three years ago. For each of the intervening years, FEMA also received an unqualified opinion on the statements prepared.

As Chief Financial Officer for FEMA, my vision for financial management has as its centerpiece providing program managers, and those involved in overseeing the agency's activities, accurate and timely financial information. It is my responsibility to ensure that FEMA is fully accountable for how we spend taxpayers dollars. We will do this by maintaining accountability and integrity in all of our financial and accounting processes.

FEMA will continue to prepare combined financial statements for all organization components within FEMA to comply with the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The implementation of performance measures consistent with the expectations of the Government Performance and Results Act of 1993, and the reengineering of the way FEMA conducts business by streamlining the procurement process, in compliance with the Federal Acquisition and Streamlining Act of 1994, are initiatives towards achieving full accountability.

The Accountability Report provides useful information for those interested in FEMA's audited financial statements and its organizational elements (Response and Recovery Directorate; Mitigation Directorate; Preparedness, Training and Exercises Directorate; Federal Insurance Administration; and the US Fire Administration). Through sound financial management, FEMA will continue to improve its operations and program performance to better serve those in need.

Gary D. Johnson

ABOUT THE FEDERAL EMERGENCY MANAGEMENT AGENCY



DISASTER

It strikes anytime, anywhere. It takes many forms—a hurricane, an earthquake, a tornado ... a flood, a fire or a hazardous spill ... an act of nature or an act of terrorism. It builds over days or weeks, or hits suddenly, without warning. Every year, millions of Americans face disaster, and its terrifying consequences. FEMA helps.

THE FEDERAL EMERGENCY MANAGEMENT AGENCY

FEMA is an independent agency of the federal government, reporting to the President. Since its founding in 1979, FEMA's mission has been clear: to reduce loss of life and property and protect our nation's critical infrastructure from all types of hazards, through a comprehensive, risk-based emergency management program of mitigation, preparedness, response and recovery. Before, during and after major disaster occurs, FEMA is there, ready to help.

VISION

- An informed public protecting their families, homes, workplaces, communities, and livelihoods from the impact of disasters.
- Communities built to withstand the natural hazards which threaten them.
- Governmental and private organizations with plans, resources, and rigorous training and exercising for disaster response.
- Community plans, prepared in advance, for recovery and reconstruction after a disaster.

THE PEOPLE OF FEMA

FEMA has more than 2,300 full-time employees working at FEMA headquarters in Washington, DC, at regional and area offices across the country, at the Mount Weather Emergency Assistance Center in Virginia, and at the National Emergency Training Center in Maryland. In a major disaster, as many as 4,000 temporary and reserve employees, other Federal agency personnel, and volunteers may join the response and recovery team.

RESPONSE AND RECOVERY

When it becomes clear that a hurricane or other potentially catastrophic disaster is about to occur, FEMA moves quickly. Equipment, supplies and people are pre-positioned in areas likely to



Tornado damage in Gainesville, Georgia, produces significant damage to residential properties.



FEMA Director James L. Witt tests the strength of hurricane shutters at a display in Lowe's hardware in Wilmington, North Carolina, a Project Impact pilot community.

be affected. That way, response can begin without delay. Whenever a disaster strikes with such force that local and state resources are overwhelmed, a state may ask the President for federal assistance. This help is available from a special fund set up by Congress under the Robert T. Stafford Act. In a Presidentially declared disaster, FEMA helps by:

- Assessing the damage and deciding what assistance is needed.
- Making disaster aid available and managing the application, approval, and disbursement process.
- Creating and staffing Federal/State disaster field offices and coordinating other Federal agencies' involvement under the Federal Response Plan.
- Keeping the public informed through a FEMA-published newspaper, *The Recovery Times*, through internet postings and through up to 24-hour-a-day broadcasts on The Recovery Channel and the FEMA Radio Network.
- Identifying opportunities to mitigate future disasters.

MITIGATION

Perhaps the most important element of emergency management, mitigation is the day-in, day-out effort to reduce disasters' long-term risk to people and property. FEMA's mitigation teams work with government and professional groups and the public to reduce the effects of floods, earthquakes, hurricanes and other hazards. FEMA helps by:

- Supporting communities to become disaster resistant.
- Promoting sound building design and construction practices.
- Providing grants for activities that reduce the impact of earthquakes, floods, hurricanes and other natural disasters.
- Educating the public on what to do through training programs, publications, and seminars.
- Helping local communities adopt floodplain management ordinances.
- Relocating homes and businesses away from high risk areas, and encouraging property owners to elevate buildings above flood level.
- Creating risk assessment maps to assist local planners with effective community planning.

PREPAREDNESS, TRAINING AND EXERCISES

Survival and quick recovery from disaster depend on pre-planning. FEMA helps the nation prepare for disaster by:

- Co-funding emergency management offices in all 50 States and the U.S. territories.
- Helping States and localities to plan and prepare for a wide range of hazards.
- Training emergency management professionals and State and local officials at FEMA's Emergency Management Institute.



Barrier Island structural damage due to tidal surge from hurricane.



Teenagers can help fight disasters by filling sandbags to repel flood waters.

- Developing courses for State and local delivery and offering training by satellite through the Emergency Education Network (EENET).
- Sponsoring exercises that let people work together under conditions similar to a real disaster.
- Coordinating emergency plans and exercises for nuclear power plants.
- Helping to minimize the risks posed by hazardous materials transport and storage.

FEDERAL INSURANCE ADMINISTRATION (FIA)

The FIA administers the National Flood Insurance Program, which offers federally backed flood insurance coverage to citizens in more than 19,000 participating communities. FEMA helps reduce the impacts of flooding and helps flood victims by:

- Providing insurance incentives to reinforce measures to mitigate flood damage.
- Increasing awareness about flood insurance and its benefits and promoting policy sales.
- Working in partnership with the insurance industry to sell and service flood insurance policies.
- Making claims payments to assist individuals, businesses, and communities to facilitate recovery from flooding.

UNITED STATES FIRE ADMINISTRATION (USFA)

In the U.S. each year, fire kills about 5,300 people and injures 29,000 people. Direct property losses due to fire exceed \$9 billion a year and the overall fire cost to the American public is \$139 billion annually. Through the USFA, FEMA helps reduce fire deaths, injuries and damage by:

- Developing new fire management technologies.
- Training the nation's firefighters and emergency medical professionals through the National Fire Academy.
- Educating the public on how to lower fire risk.
- Working with 32,000 fire departments to collect and analyze national fire statistics.

PERFORMANCE STANDARDS

FEMA, in this report, is reporting performance against Performance Standards that were established for program and project component activities. These standards serve as criteria for measuring quality and quantity of performance in terms of effectiveness, efficiency, and economy in delivery of services and carrying out operations.